

Reclamation Manual

Directives and Standards

Subject: Cost Allocations

Purpose: Establish the requirement that cost allocations are to be performed on Reclamation projects and the legal authority for accomplishing this activity.

Authority: PEC P01, Program Economics, Revenues, and Contracts - Final Cost Allocation
 Economic and Environmental Principles and Guidelines for Water and Related
 Land Resources Implementation Studies (P&G).
 Reclamation Project Act of 1939 (Section 9).
 Federal Water Project Recreation Act of 1965, Public Law 89-72, as amended
 by the Water Resources Development Act of 1974, Public Law 93-251.
 Water Supply Act of 1958, Public Law 85-500.
 Reclamation Reform Act of 1982, Public Law 97-293.
 Fish and Wildlife Coordination Act of 1958, Public Law 85-624.

Contact: Environmental and Planning Coordination, D-5100, Economics Branch, D-8270

1. Need for Cost Allocation.

- A. **Requirements.** Reclamation law and associated policy require an allocation of costs to components or purposes of projects in order to: (1) test financial feasibility of reimbursable components or purposes by a comparison of estimated project costs with anticipated revenues, and (2) after construction, establish and measure compliance with project financial requirements. The primary purpose of the final allocation is to determine the assignment of costs to beneficiaries for repayment. As cost-sharing requirements differ by law among the purposes or components served by a project, a systematic and impartial process of allocation is required to determine and assign those costs that are clearly identifiable with the particular purposes which they serve, and to equitably apportion the remaining costs which jointly serve two or more purposes.
- B. **Initial Cost Allocation.** There are two essential points at which cost allocations are made. An initial allocation is made during plan formulation to provide a preliminary estimate of the financial feasibility of individual project elements and the project as a whole. Thus, in the project planning stage, project costs are allocated to reimbursable and nonreimbursable purposes to test financial feasibility of each purpose by a comparison of estimated costs with anticipated revenues. The reimbursable cost estimates are then used as the basis for negotiation of repayment contracts, which are subject to the final cost allocation. Coincidentally, the allocation yields an estimate of nonreimbursable costs for the project as a whole, so as to allow judgement as to whether the Federal investment falls within the limits of policy guidelines.

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- C. **Final Cost Allocation.** When construction of the project is determined to be substantially complete, a final cost allocation is required. At this point, most postauthorization planning, design, construction, and interest during construction (IDC) costs are known, and operation, maintenance, and replacement (OM&R) costs are more clearly defined. This final allocation, therefore, determines actual reimbursable and nonreimbursable costs and is the basis for assignment of costs to beneficiaries for repayment.
 - D. **Treatment of Purposes.** Neither the ability of a particular purpose to repay its cost nor knowledge of a desirable rate will influence the amount of costs allocated to that purpose; therefore, allocated costs and estimated repayment will be determined independently. All project purposes will be accorded comparable treatment in the cost allocation process, as each is entitled to its fair share of the advantages resulting from the plan of development.
2. **Responsibility for Cost Allocation.**
- A. **Implementing Agency.** Cost allocations will be made by the agency responsible for implementation of a project. Coordination with other agencies having responsibilities for particular purposes will be conducted at all appropriate administrative levels. For Reclamation projects, cost allocations will be performed by Reclamation staff knowledgeable in cost allocation procedures under the direction of the responsible area or regional office. Cost allocations which establish contract terms and conditions and/or result in initiation of repayment will be transmitted by the Regional Directors to the Commissioner's Office for approval. Preliminary cost allocations prepared for planning or other purposes will be approved by the Regional Directors. Annual updates of cost allocation and repayment data included in budget justification documents will be approved by the head of the division in the regional office that has the responsibility for preparing the documents.
 - B. **Documentation.** It is important that all elements of the allocation process be carefully documented. This is particularly important in the derivation of benefits, single-purpose alternative (SPA) costs, separable costs, and reimbursable costs.
3. **Costs to be Allocated.**
- A. **Costs to be Allocated.** National Economic Development (NED) Account costs defined below as total project costs will constitute the costs to be allocated for projects in all stages of planning, construction, and operation. In the allocation process, these costs are adjusted for time of occurrence by the application of appropriate compound interest and annuity factors to derive equivalent present worth monetary values at the beginning

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of the first year of project service. After allocation, the economic equivalents will be reconstituted and reconciled to the original unadjusted values to satisfy reporting and accounting requirements.

- B. **Allocations During Construction.** After construction begins, costs to be allocated will reflect annual financial statements showing the effects of retirement, replacement, reconstruction, abandonment, maintenance, and other transactions recorded during the period of construction and operation. Costs used in the allocation are the latest official estimates of Reclamation and cooperating agencies. In feasibility studies, cost estimates for separable costs and SPA's will be at least of appraisal grade.
- C. **Nondepreciated Costs.** Complete, nondepreciated costs are to be used in all phases of the allocation. This will require vigilance during a final allocation due to the fact that some project costs are currently accounted for on a depreciated basis by Reclamation finance offices.
- D. **Documentation.** A table showing costs to be allocated will precede the cost allocation in planning reports. Costs specifically identified with a particular purpose, as well as separable and joint costs, will be shown with specific and separable costs listed by component or purpose. Cost constituents, i.e., construction, IDC, OM&R, etc., will be separately identified.
 - (1) **Deferred Uses and Nonreimbursable Costs.** Costs incurred for excess capacity to facilitate subsequent additions, or costs of other provisions for deferred project uses, will be included in the total costs to be allocated and then segregated by allocating directly to the deferred-use category. An example would be costs expended for water storage capacity for anticipated future M&I water demands as authorized under the Water Supply Act of 1958, as amended. The deferred costs would encompass all costs applicable to the deferred use or component including both separable costs and joint costs, as appropriate.

In similar manner, the nonreimbursable costs for highway improvement and for postauthorization archeological salvage investigation will be directly assigned to these purposes and set aside. This will permit completion of the main cost allocation by standard procedure.
 - (2) **Total Project Costs to be Allocated.** All NED costs of project implementation are to be allocated. Costs of project implementation include costs incurred by the responsible Federal entity and, where appropriate, contributed by other Federal or non-Federal entities to construct, operate, and maintain a project in accordance with sound engineering, economic, and environmental principles. These costs, as

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defined in chapter II, section XII of the P&G, include postauthorization planning and design costs; construction costs; construction contingency costs; administrative service costs; fish and wildlife habitat mitigation costs; relocation costs; historical and archeological salvage costs; land, water, and mineral rights costs; environmental enhancement; and OM&R costs.

- (3) **Non-Federal Costs.** Disposition of project costs financed by a non-Federal entity will vary depending on the particular cost category. In the instance of a non-Federal contribution for an add-on purpose which involves only stand-alone incremental costs, i.e., for a purpose which does not depend directly on joint project facilities for its value, the costs are directly set aside to that purpose. If benefits (or SPA costs, if applicable) related to the purpose are included within the allocation, those benefits must also be subtracted out or set aside so as to not influence the remaining allocation process.

If a non-Federal contribution is made for a purpose which is an integral part of the project, the contribution is included with other (Federal) costs for the purpose and carried through the allocation process so that the purpose accrues a proportionate share of joint costs. The non-Federal contribution would then be included as a segment of non-reimbursable costs at the conclusion of the allocation process.

4. **Benefits Used in Cost Allocation.** Categories of monetary benefits (or other measures of beneficial use) and computation procedures used for NED objective purposes found in the cost allocation will be the same as those used for project justification (P&G, chapter II). All benefits, SPA costs, and costs for allocation purposes will be placed on a comparable basis in relation to time of occurrence using the same interest rate and period of analysis. Benefits will be capitalized to their present worth (lump-sum) amounts at the first year of project service.
5. **Interest Rates.** The interest (discount) rate to be used in cost allocation and for the computation of imputed IDC will be the same rate used in the economic analysis of the project (P&G 2.1.2). At the conclusion of the allocation process, IDC allocated to interest-bearing reimbursable purposes will be converted to the amount that would result from computation at the applicable interest rate for repayment of individual purposes. Interest rates for cost sharing or repayment are discussed in additional Program Economics, Revenues, and Contracts Directives and Standards. For authorized projects, the interest rate used for cost allocations will reflect the rate applicable at the time of authorization.
6. **Period of Analysis.** The period for estimating benefits and costs used in the cost allocation process will be the same as that used in project formulation and evaluation which is the lesser of the economic life of the project, or 100 years beyond the initial date of service (P&G 1.4.12).